Research Paper | Psychology | E-ISSN No : 2454-9916 | Volume : 3 | Issue : 2 | Feb 2017

INFLUENCE OF PARENTS IN SHAPING OF FINANCIAL BEHAVIOR OF THEIR CHILDREN

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ABSTRACT

This article tests parental influence on shaping the financial behavior of their children. A sample consisting of 391youth participated in the study. Findings indicated a positive and strong correlation between observations of parent behavior and acquisitions of participant financial behavior. Statistics also showed a positive and strong correlation between financial interaction with parents and acquisition of participant financial behavior.

KEYWORDS: Parents Influence, Observational Learning, Financial Interaction, Financial Behavior.

INTRODUCTION

Parents are the primary socialization agents that most influential in process of children grow up. They influence across the ages and cultures, including in Malaysian society which is living in eastern customs and cultures. Parents placed at the high level in family structure and their instructions must be obeyed and respected. However, with the challenges of the borderless world and modern living styles that are creeping into society, parental influence become the main concern because their role was slowly taken over by other socialization agents such as media. Children tend to get the latest information and exposed to various financial practices through this media without expecting information from their parents. Thus, the challenge for parents today is larger than the previous generation. Although we know that a relationship exists between the parents and the financial behavior of their children, but less focused on the scholars in the process of socialization and the transfer of financial behavior within the family and between generations (Kim &Chatterjee 2013,Danes & Yang 2014).Therefore, this study sought to understand the role played by parents regarding in shaping of financial behavior of their children, especially in the eastern society of rural areas.

LITERATURE REVIEW

Financial Socialization

A body of research showed that children shaping financial behavior through modeling and interaction with parents (Lachance & Choquette-Bernier 2004). Modeling is the imitation of behavior with the goal of forming behavior like the model (Moschis & Churchill 1978). For example, children learn about saving if they more frequent observing their parents saving regularly. While through financial interactions, parents discuss, talk and teach the children directly about financial matters (Allen 2008), for example, children are taught the importance of savings in preparation at the time of emergency. In addition, White bread and Bingham (2013) asserted that children are very skilled in mimicry learning from an early age. Previous studies have found that children who regularly observe the behavior of their parents are likely to practice these behaviors in later life. Similarly, children who regularly interact with parents in financial matters, they tend to practice the learning outcomes as adults. Therefore, the influence of parents through the financial socialization during early age is a critical period because it serves as a basis for the financial management practices of children in the future (Beverly & Burkhalter 2005).

Financial behavior

Financial behavior is defined as financial management practices, including cash management, credit management, savings, and investment management (Hilgerth et al. 2003). O'Neill and Xiao (2006) suggested 5 financial behavior that always practiced, namely checking account to pay bills, making enough money for expenses every month, savings to cover expenses of unexpected, compare purchasing before make a major purchase and keeping financial records. Past research showed that the financial management of individuals influenced through socialization at an early stage of their life cycle (Falahati & Paim 2011), which is individuals learn financial practices by modeling the behavior and interaction with parents in financial matters. The more frequent observations of the behavior of parents and the more often interact with parents in financial matters, the more aware of individuals about the importance of budgeting and saving (Gutter et al. 2009). Peng et al. (2007) suggested that an observation of the parent's savings behavior and investment assets during the early stages become an important factor in increasing the savings rate of children in the future. Furthermore, discussions about financial decisions can improve children's understanding of financial decision-making process (Danes & Habermann 2007).

The Current Study

This study used the Theory of Consumer Socialization (Moschis & Churchill 1978) as an underpinning theory of the study. By presenting a discussion on how this theory is effective to describe the acquisition of financial behavior of children. For this reason, the issues to be addressed are whether the observation of parents financial behavior and interact with them, influence the shaping of the financial behavior of children. With the assumption that if an understanding of the financial development process starting from the early age can be improved, it can explain the influence of parents towards the financial behavior of their children. Therefore, the null hypothesis of the study was;

(a) There was no significant correlation between observation of parents behavior and financial behavior of children.

(b) There was no significant correlation between financial interactions with parents and financial behavior of children.

RESEARCH METHODOLOGY

Participants and Procedure

A total of 391 youth aged between 20 to 40 years from rural areas involved in this study. Systematic random sampling technique was use and data collected through a questionnaire self-reporting mode. Pearson correlation coefficient method was applied. The study was conducted in two districts in a state of Malaysia involving the 7794 list of the sampling frame. Distribution of the questionnaire involves two phases, in the first phase, 270 participants who were selected as the sample has filled the questionnaire in a youth event organized by youth associations of the area. In the second phase, 270 questionnaires were distributed to samples in collaboration with the local youth association. The average return rate of questionnaires for both of the area is more than 75%. All of the participants were youth who work in rural areas.

Measures

The instrument consists of 3 sections, the first section measured the frequency of participants in observing and interacting with parents regarding their financial matter in the early growth until the age of 17 years. There are 5 items that required participants to indicate how frequently they observe parents behavior followed by 5 items that required participants to indicate how frequently they interact with parents in financial matters using a five-point Likert scale 1 (never) to 5 (often). The instrument is adapted based on The Social Learning Opportunities instruments by Gutter et al. (2009) and The Direct Parent Teaching instruments by Shim et al. (2010). Cronbach's alpha were.71 and .79 respectively. The second section required participants to identify their financial behavior practices, modified from the instruments of financial behavior by Hilgerth et al. (2003). The instrument consists of 14 items that measure the financial management practices includes cash management, credits, saving and general financial management. Participants were asked to indicate on four-point Likert scale 1(strongly disagree) to 4 (strongly agree). Cronbach's alpha was .82. Alteration of the original instruments in order to meet the specific needs of a study has been done in some previous research. The last section consists of questions related to the demographic and socioeconomic status of participants.

RESEARCH FINDINGS

Demographic and Socioeconomic Status

The sample was comprised of 64% males and 36% females from rural areas. A total of 74 participants (19 %) is the X generation of individuals born in 1965 to 1980. While the rest from Generation Y. Participants aged between 31 to 35

years had the lowest (16 %), while participants aged between 20 years and 25 years showed the highest in percent (36 %). The remaining aged 26 years to 30 years (33 %). Nearly 80 percent of the participants are non-graduate such as diplomas, skills certificates, community colleges and polytechnics. Whereas participants who have professional qualification only 8. Employment information indicates a total of 135 participants (35 %) worked in the public sector, 149 participants (38 %) were private sector whereas the remaining are self-employed. In terms of parents' education attainment, the majority of the participants (83%) were raised by parents who did not have the qualification of the degree instead of 17 percent of parents who have the tertiary academic qualification.

INFERENTIAL STATISTICS

Table 1
Correlation between Observation of Parents Financial Behavior and Acquisition of Financial Behavior

		Financial Behavior
Observation of Parents Behavior	Pearson Correlation Sig. (2- tailed) N	.474(**) 0.000 391

***Significant at 0.05 level of significance*

Table 1 showsa positive and strong correlation between observation of parents financial behavior and acquisition of financial behavior ($r = .474, p < .05$), which indicate the more frequently observing the behavior of the parents, the higher the score obtained on financial behavior. A total of 22.46 percent of the variance in financial behavior can be explained by the observation of parent financial behavior.

Table 2
Correlation between Financial Interaction with Parents and Acquisition of Financial Behavior

		Financial Behavior
Financial Interaction with Parents	Pearson Correlation Sig. (2- Tailed) N	.478(**) 0.000 391

*** Significant at 0.05 level of significance*

Table 2 showsa positive and strong correlation between financial interaction with parent and acquisition of financial behavior ($r = .478, p < .05$), indicate the more frequently participants engage in finance matter with their parents, the higher the likelihood of participants to practice positive financial behavior. A total of 22.8 percent of the variance in financial behavior can be explained through financial interaction with parents.

DISCUSSION AND CONCLUSIONS

The result from this study showed that financial behavior can be developed through the observation and interaction with parents. This empirical evidence supports the argument of many scholars such as Shim et al. (2009), Jorgensen &Savla (2010) and Kim et al. (2011). A noteworthy finding that parents are able to exert a huge amount of influence on the development of the children financial behavior either directly or indirectly, starting at a young age. This evidence supportedby statistics that show a strong positive relationship between the observation of behavior and interaction with parents and the acquisition of financial behavior. Further, research suggested that influence of parents in the financial development of children is relevant, especially in rural areas. More importantly, parents need to be aware of the importance of their role in the early stages of the education process of children. In Asian societies, parental influence is very prominent in many aspects of life. They have the authority, responsibility and children are taught to respect their parents (Chao & Tseng 2015). Hence, parents need to take the opportunity to allow children to observe their positive financial behavior because of their enormous influence on children, as preparing their children to function in the world economy of adults. Other than that, with limited internet facilities in some of the rural areas, make it difficult for children to get financial information, thereby parental responsibility in modeling financial behavior is important in the rural area. Parents should expose their children regarding purchasing of needs and wants, record purchases by priority so that children know the function of money and learn to be smart shoppers. Similarly, parents need to provide opportunities for children to know about the importance of financial management. By teaching how to manage daily expenses and telling the benefit of saving. Open discussions between children and parents about financial topics may promote the acquisition of responsible financial behavior in their future. On the other hand, the youth should also be aware of the need to have the right financial skills in order to play more active and responsible regarding their personal finance in the current financial challenges. With limited financial experience among parents in rural areas, youth should strive to interact and model the behavior of their peers who have been successful. Previous research has found that peers are influential in the selection of financial products (Bachmann et al. 1993),therefore they need to get the right advice from their peers in making decisions about loans, asset purchases and savings for retirement to avoid the high cost. Apart from the fact that the influence of parents is very important in shaping the financial behavior, the youth must be more active in practicing the financial management, learn from other socialization agents such as peers, media, and youth organizations to deals with the financial challenges that is more complex compared to the previous time.

ACKNOWLEDGEMENTS
The author would like to thanks the Faculty of Education, Universiti Kebangsaan Malaysia for providing the support.

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